

Message Text

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ACTION EB-08

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E.O. 11652: N/A

TAGS: ETRD EPAP CG

SUBJECT: ATTEMPT TO RAISE BASE PRICE FOR ZAIRIAN ROBUSTA

QM SUMMARY: THE OFFICE NATIONAL DU CAFE (ONC) AND THE CENTRAL BANK ARE CURRENTLY ENGAGED IN DISCUSSIONS CONCERNING A UNILATERAL ATTEMPT BY THE ONC LAST WEEK TO FIX A BASE PRICE FOR ZAIRIAN MIDDLE GRADE ROBUSTA AT \$2.65 PER POUND, ABOUT 61 CENTS ABOVE THE BASE PRICE CURRENTLY FIXED BY THE CENTRAL BANK. THE BANK IS STILL ENFORCING ITS BASE PRICE AND IS EXPECTED TO PREVAIL IN THIS DISPUTE, BUT IT IS STILL UNCERTAIN WHETHER THE ONC WILL ATTEMPT TO BLOCK SHIPMENT OF THE COFFEE IF IT IS SOLD BELOW \$2.65. END SUMMARY.

2. ON AUGUST 7 THE ONC TOOK QUARTER-PAGE ADVERTISEMENTS IN KINSHASA NEWSPAPERS TO ANNOUNCE THAT THE ORGANIZATION INTER-AFRICAIN DU CAFE (OIAF) HAD ADVISED MEMBER PRODUCERS NOT TO SELL THEIR ROBUSTS FOR LESS THAN \$1.65 A POUND. THE ADVERTISEMENTS WENT ON TO SAY THAT FROM NOW ONNO ZAIRIAN COFFEE EXPORTER WAS TO SELL MEDIUM GRADE ROBUSTA FOR LESS THAN THAT PRICE (ZAIRIAN GRADES HTM/N/M OR N2B). THE ONC SUBSEQUENTLY CONFIRMED TO THE EMBASSY THAT THIS ANNOUNCEMENT WAS TO BE CONSTRUED AS AN ORDER TO COMPLY WITH THE OIAF BASE PRICE.

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3. CIT. NGANDU KALONDA BUJITU, DEPUTY DIRECTOR OF THE TRADE REGULATION SECTION OF THE CENTRAL BANK WHICH REVIEWS COFFEE SALES CONTRACTS UPON WHICH EXPORT PERMITS ARE ISSUED AND WHICH SETS BI-WEEKLY BASE MARKET PRICES, TOLD US THAT THE BANK WAS NOT CONSULTED BY THE ONC PRIOR TO THE ANNOUNCEMENT. THE CENTRAL BANK BASE PRICES IN FORCE AUGUST 8 THROUGH 20 FOR THE GRADES OF ROBUSTA IN QUESTION ARE 145.07 BELGIAN FRANCS AND 145.42

BELGIAN FRANCS PER KILO (ABOUT \$2.04 PER POUND). FURTHERMORE, RECOGNIZING THAT EVEN THOSE PRICES WERE ENOUGH ABOVE THE PRE-VAILING WORLD MARKET PRICE OF ABOUT \$1.97 PER POUND TO PREVENT THE COFFEE FROM MOVING, THE BANK HAS RECENTLY AGREED TO ISSUE EXPORT LICENSES AT PRICES 15 PER CENT BELOW THE BANK'S PUBLISHED BASE PRICE, BRINGING THE ACTUAL ZAIRIAN BASE PRICE TO \$1.75 PER POUND.

4. ACCORDING TO THE PRESENT SYSTEM OF ZAIRIAN EXPORT CONTROLS ON COFFEE, IT IS ONLY THE CENTRAL BANK WHICH REVIEWS CONTRACTS AND APPROVES OR DISAPPROVES PROPOSED EXPORTS ON THE BASIS OF THE PRICE. HOWEVER, THE ONC ISSUES A CERTIFICATE OF QUALITY WHICH THE EXPORTER IS REQUIRED TO PRESENT TO THE CENTRAL BANK BEFORE THE BANK CAN ISSUE THE EXPORT LICENSE. OFFICIALS IN THE TRADE REGULATION OFFICE OF THE BANK BELIEVE THAT THE ONC COULD ENFORCE THE OIAC TARGET PRICE BY SIMPLY REFUSING TO ISSUE CERTIFICATES OF QUALITY. THE COMMERCIAL DIRECTOR OF THE ONC, HOWEVER, EXPRESSED THE OPINION THAT SINCE THE ONC CERTIFICATE DOES NOT INVOLVE THE REVIEW OF SALES CONTRACTS, THE ONC IS NOT IN A POSITION TO ENFORCE THE REGULATION. IT IS HIS IMPRESSION THAT THE ONC MADE THE ANNOUNCEMENT OF THE NEW BASE PRICE SIMPLY TO FOLLOW THROUGH ON THE RESOLUTION OF THE OIAC. HE IMPLIED THAT THE ONC WAS THEN WILLING TO PERMIT THE BANK OF ZAIRE TO BEAR THE ONUS OF RENEGING ON THE REGIONAL AGREEMENT.

4. THE VICE GOVERNOR OF THE BANK OF ZAIRE IS EXPECTED TO DECIDE LIMITED OFFICIAL USE

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THE POLICY THE BANK WILL FOLLOW IN FACE OF THE ONC AMMOUNCEMENT THIS WEEK. DEVELOPMENTS WILL BE REPORTED. IN THE MEANTIME, THE BANK CONTINUES TO ISSUE LICENSES ON THE BASIS OF THEIR PUBLISHED BASE PRICES.

5. COMMENT: IT IS THE OPINION OF THE EMBASSY THAT THE BANK WILL REPUDIATE THE ONC ANNOUNCEMENT AND STICK WITH ITS OWN SYSTEM OF BASE PRICES. SINCE COFFEE EXPORTS ARE THE MAJOR SOURCE OF FOREIGN EXCHANGE FOR ZAIRIAN COMMERCIAL BANKS AND ARE EXPECTED TO BRING IN 30 TO 40 PER CENT OF THE COUNTRY'S FOREIGN EXCHANGE RECEIPTS THIS YEAR, THE BANK CANNOT AFFORD A LONG AND RISKY HIATUS IN COFFEE EXPORTS. IN ADDITION TO BEING ANOTHER EXAMPLE OF THE DISORGANIZATION WITHIN THE ZAIRIAN GOVERNMENT WHICH AFFECTS THE ECONOMY, THIS INCIDENT IS THE SECOND THIS YEAR IN WHICH THE ONC HAS TRIED TO USURP THE BANK'S POWERS OVER COFFEE EXPORTS (ELLISON MEMCON DATED APRIL 14, 1977). ALTHOUGH THE ONC HAS SO FAR DONE LITTLE TO IMPROVE ZAIRE'S COFFEE EARNINGS, IT APPEARS TO HAVE SIGNIFICANT POTENTIAL FOR DISRUPTING THIS IMPORTANT EXPORT INDUSTRY. WE ARE HOPEFUL THOUGH THAT THE PROBLEM WILL BE RESOLVED SHORTLY. END COMMENT. DECONTROLLED AFTER 4 YEARS FROM ORIGINATING DATE. CUTLER

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Sent Date: 16-Aug-1977 12:00:00 am
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